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CONNECTICUT CONSTRUCTION INDUSTRIES ASSOCIATION, INC.

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Raised Bill 1052, An Act Concerning Improved Tax Collection

Public Hearing – Committee on Finance, Revenue and Bonding

March 11, 2013

CCIA Position: Supports with an Amendment to Section 4

Connecticut Construction Industries Association, Inc. (CCIA) represents many sectors of the commercial construction industry in the state. Formed over 40 years ago, CCIA is an organization of associations, where those segments of the commercial construction industry work together to advance and promote their shared interests. CCIA is comprised of over 300 members, including contractors, subcontractors, material producers, suppliers and affiliated organizations. One of our divisions, the Connecticut Asphalt & Aggregate Producers Association is comprised of members who produce and sell asphalt pavement for our roads, airports, parking lots and bridges across the state. CCIA members have a long history of providing quality work for the public benefit.

CCIA supports Raised Bill 1052, An Act Concerning Improved Tax Collection because it addresses the competitive disadvantage that Connecticut businesses face against out-of-state competitors who do not pay the state tax on gross earnings on the first sale of petroleum products in the state. An amendment to the Section 4 of the bill providing an additional exemption "(N) for any first sale occurring on or after July 1, 2013, liquid asphalt used in the production of asphalt pavement" would address a competitive disadvantage that our members face from out-of-state competitors. This will keep the jobs and economic activity generated by Connecticut's transportation funding within the state, and stop the benefits of Connecticut transportation investments from going to out-of-state businesses.

Transportation investments were identified as an agent for economic growth by the U.S. Congress during the discussions on the American Recovery & Reinvestments Act. The principal tenant of this proposition is that those investments directly create construction jobs over the short term and drive economic activity on a local level, thus, having long-term benefits. However, in Connecticut, more and more of our transportation investments are going to out-of-state asphalt producers who are selling their products in Connecticut, even on Connecticut Department of Transportation projects, because those out-of-state producers have a competitive advantage - they do not pay the gross receipts tax on liquid asphalt.

Other negative impacts include that Connecticut is losing revenue from payroll taxes, incurring the cost of supporting people on unemployment, and missing out on the lost economic activity that results from the ensuing unemployment. Out-of-state producers in Amenia NY, White Plains NY, New Bedford NY, Palmer MA, West Springfield MA, Chicopee MA, Holyoke MA, Coventry RI, and Westerly RI have a competitive advantage over Connecticut producers because they do not pay the Connecticut gross earnings tax on liquid asphalt that goes into their final product. These out-of-state producers are selling asphalt pavement, and in many cases installing the product with their own employees, on ConnDOT, municipal, and private projects in

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Connecticut, while Connecticut producers and workers cannot compete. This revenue deficit directly affects to equipment dealers, maintenance companies, testing labs and all of the other Connecticut businesses that support Connecticut asphalt producers.

This revenue loss associated with having the gross earnings tax on petroleum products apply to liquid asphalt is an inefficient siphoning of the state's transportation dollars into the general fund. For example, if we estimate that there are an estimated 4 million tons of asphalt pavement installed in Connecticut each year, than:

5% of each ton of asphalt pavement is liquid asphalt.

200,000 tons of liquid asphalt is used in Connecticut each year.

If the cost of liquid asphalt is $600 per ton and the gross receipts tax increases to eight and one-tenth percent on July 1, 2013, the gross receipts tax will be $48.60 per ton of liquid asphalt.

200,000 tons multiplied by $48.60 equals $9,720,000 of revenue that is generated from the gross earnings tax from liquid asphalt.

A majority of asphalt pavement is paid for out of the Special Transportation Fund and a combination of state and municipal funding.

If 80% is ConnDOT work, this tax is included in bid prices (with a contingency for increases because the GRT is not included in ConnDOT's asphalt cost adjustment specification) and is being billed against the revenue stream that is funding the Special Transportation Fund. Eighty percent of $9,720,000 equals $7,776,000 which is going around in a circle from one state fund to another.

Of that $7,776,000, 50%, or typically more, is being kept in the General Fund on an annual basis, which is effectively an inefficient siphoning off $3,888,000 from the Special Transportation Fund to the General Fund annually.

For these two reasons, the current system is not economically beneficial to the state. Lost jobs, lost wages, lost payroll taxes, lost property taxes, lost economic activity, and increases in social program costs are stalling our economy. Simultaneously, we are giving the primary benefits of Connecticut's transportation dollars to out-of-state businesses and inefficiently siphoning money out of our transportation program and diverting it into the General Fund each year.

For additional information, please contact Don Shubert, CCIA President, at 860-529-6855.